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INFO RHEHNSC/NSC WASHINGTON DC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUCNIRA/IRAN COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 004653

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DEPT FOR ISN/C, EEB/TSF NEA/IR

E.O. 19528: DECL:07/13/17
TAGS: [EFIN](#) [KNNP](#) [PARM](#) [IR](#) [FR](#)
SUBJECT: FRANCE: U/S LEVEY DISCUSSES NEXT STEPS ON IRAN

Classified by EMIN Seth Winnick for reasons 1.4 (b) and (d)

11. (C) Summary: In November 29 meetings with MFA, Finance Ministry and French Central Bank officials, Treasury U/S Stuart Levey sought an update on status of current French and EU measures against Iranian entities and discussed further actions. The MFA Political Director expressed frustration at German footdragging on EU actions. The Treasury Director highlighted that protecting a bank's solvency was the only legal basis for French banking officials to intervene, in the absence of UN or EU decision. U/S Levey also briefed members of the National Assembly on financial measures against entities involved in terrorism and proliferation. End Summary.

MFA on Iran Sanctions Discussion in EU

12. (C) Political Director Gerard Araud reviewed France's "difficult" dialogues on Iran sanctions with German and Austrian interlocutors plus potentially positive signals from a Chinese official. He confirmed that the November 30 EU General Affairs Council would consider further sanctions actions against Iran, but that no tangible EU action would likely take place before January. On a substantive level, Germany is willing to designate the Iranian Bank Melli as involved in proliferation and will consider adding Bank Saderat. On a procedural level, however, the German government is insisting on holding off on applying sanctions to newly listed entities until the second half of January when either a new UN resolution is in place or the UN channel is "clearly stalled." He said that the coalition agreement in Germany reportedly made this necessary. (Later, Quai and Elysee staff told Levey that SPD Finance Minister Steinbrueck had staked out opposition to Iran sanctions as an issue on which to differ from the Chancellor.) Araud complained that other countries are "hiding behind" Germany. He said Austria is quite resistant to additional measures, partly due to commercial interests (OMV) and partly because of the personal rapport between Austrian Chancellor Plessnik and IAEA Director Elbaradei. On the flip side, the Quai and Elysee stressed that both the Italians and the Spanish would support tougher sanctions.

UN Prospects

13. (C) On the UN-associated process, Araud said he believes that UN sanctions will be achieved in January, but they will be weak ones. He reported that his Chinese counterpart had referred to a possible "grandfather clause" suggesting that the Chinese might accept measures that applied to new transactions but not current ones. He said he is looking to see how far China is willing to go in the P5-plus-one meeting in Paris on December 1.

Prospects for French National Measures

14. (C) In France, Araud stated that the GOF has found that the lack of specific law on proliferation hinders its efforts to close down

entities because of proliferation. The GOF is moving to close this loophole but in the meantime is resorting to other means to stop banking activity short of revoking bank licenses.

Finance Ministry Stresses EU Solutions

15. (C) Finance Ministry Director General Xavier Musca said France prefers EU measures because the open borders within the EU make national measures ineffective. He also drew clear distinctions between the legal bases for acting to implement UN sanctions, or EU-wide sanctions, on the one hand, and national action by banking authorities on the other. That said, there is clearly the political will to take further action against Iran. Musca said that the FATF statement and guidance on Iran have been posted and GOF is looking at whether any additional guidance is needed for its application in France. Actions against additional Iranian entities in France would draw from the Bank Sepah experience, with the difference that Bank Melli and Bank Saderat are much more active in Paris and would therefore be more complex and likely take even more time to wind down. Musca explained that the only basis for Banking Commission to take control is to protect creditors if market activities are putting the bank's very survival in danger, although the application of a UN Security Council resolution is a separate issue. However, Musca conceded that one of the problems that arose with Bank Sepah was that many innocent creditors were hurt when Sepah's Paris branch transferred large portions of its holdings to other Iranian banks just prior to the announcement of UN Sanctions.

16. (C) According to Musca, the Banking Commission is an independent regulatory body and French banking law is geared to the preservation of the banks themselves. The Banking Commission can inspect and look closely at what is being done, but cannot forbid activity. (Note: By statute, the Commission has the power to impose sanctions on credit

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institutions for failing to act on directives based in law (e.g., money laundering/terrorism finance laws). Possible sanctions include prohibiting or limiting credit institutions' operations, suspending or removing top managers and withdrawing the institution's license. The Commission is chaired by the Governor of the French central bank and Musca is one of the seven members in his role as Director-General of the Treasury and Economic Policy. End Note)

17. (C) Given the public discourse about a possible designation of Bank Melli as a proliferator, U/S Levey asked whether France should take any action to prevent Bank Melli's Paris branch from moving assets as Bank Sepah did. U/S Levey pointed out that France had used an extraordinary authority to enter Bank Sepah prior to the adoption of UNSCR 1747, but asset flight nonetheless occurred. If Melli's Paris branch also took measures to preempt a UN designation, U/S Levey posited that this would also constitute a threat to French creditors; could French regulators act against Melli on this basis? U/S Levey urged Musca to consider carefully the similarities between the Sepah and Melli cases, and take any appropriate action to prevent the Bank Sepah situation.

French Central Bank

18. (C) First Deputy Governor Jean-Paul Redouin told U/S Levey that the Central Bank never had confidence in Iran Central Bank money laundering controls so the FATF statement in October does not change much with respect to the Bank of France's scrutiny over Iranian bank operating in France. Iranian bank subsidiaries have always been subject to Bank of France supervision on the basis of their presence on French territory. Banking Commission SecGen Nouy added that site visits to Iranian banks far outnumber visits to other banks in France, and supervisory efforts couldn't be higher. Banking Commission Legal Affairs Director Eduard Fernandez Bollo said that the Commission had detected some situations where Iranian banks were using their French branches to conduct business outside of France, a practice they were watching closely. He also admitted that the Iranian bank branches in France had been "underdeveloped for years," indicating that Iran is likely keeping them open for reasons other than financial prudence..

9.(C) With respect to guidance issued to French banks on Iran, Redouin said that all French banks with international operations are expected to know and have its international operations policy comply with OFAC. Nevertheless, the FATF statement on Iran may indicate the need for more diligence, a question the Ministry of Finance is currently examining. Nouy said that there needs to be more transparency on bank transfers. A vote at SWIFT is anticipated in January that would require banks to declare if the transfer is effected on behalf of another entity and, if so, which one. Some French banks are anticipating the outcome and are acting accordingly already, he said.

¶10. (C) Regarding the supervision of Bank Sepah, Fernandez Bollo said that approximately one-fifth of outstanding commitments have been processed. The bank possesses enough resources to pay "ordinary expenses" for a year but would need a cash (re)infusion to settle the remaining four-fifths of commitments. Sepah's Tehran headquarters has not transferred one cent to Bank Sepah Paris since sanctions were imposed.

Deputies Want Action but also Continued Dialogue

¶11. (C) National Assembly majority leader Jean-Francois Cope, from President Sarkozy's center-right Union for a Popular Movement (UMP) party, said that France would not accept Iran having nuclear weapons capacity. However, he said it was important to distinguish between the "crazy" president of Iran and the Iranian people, who to some extent are willing "victims" of President Ahmedinedjad's nationalist, Islamic propaganda. Cope posed questions regarding the effectiveness of sanctions and took on board U/S Levey's point that carefully targeted measures that had support of partner governments and the private sector held out the best hope for success. Nevertheless, he and another UMP colleague (Claude Goasguen who represents Paris' 14th district) lamented that there was not enough action being taken to prevent Iran's acquisition of nuclear arms.

¶12. (U) U/S Levey has cleared this cable.

Stapleton